

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2009 OCT 14 A 9:38

RECEIVED
ARIZONA CORPORATION COMMISSION
LEGAL DIVISION

IN THE MATTER OF THE APPLICATION OF
FARMERS WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES FOR UTILITY
SERVICE.

DOCKET NO. W-01654A-08-0502

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the
Surrebuttal testimony of Staff Witnesses Charles R. Myhlhousen and Jian W. Liu in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 14th day of October, 2009.

Ayesha K. Vohra, Attorney
Charles H. Hains, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

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Arizona Corporation Commission
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Phoenix, Arizona 85007

Arizona Corporation Commission

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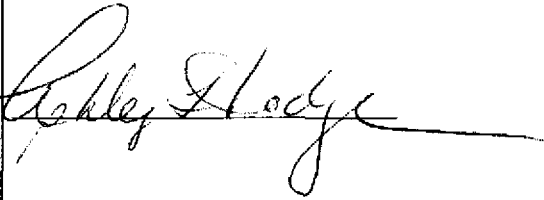
OCT 14 2009

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1 Copies of the foregoing were mailed
2 this 14th day of October, 2009 to:

3 Jeffrey W. Crockett
4 Robert Metli
5 SNELL AND WILMER
6 One Arizona Center
7 Phoenix, Arizona 85004-2202
8 Attorneys for Farmers Water Co.
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**SURREBUTTAL
TESTIMONY**

OF

**CHARLES R. MYHLHOUSEN
JIAN W. LIU**

DOCKET NO. W-01654A-08-0502

**IN THE MATTER OF THE APPLICATION OF
FARMERS WATER CO., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY AND FOR
RATE INCREASES IN ITS RATES AND SERVICE
BASED THEREON**

OCTOBER 14, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. W-01654A-08-0502
FARMERS WATER CO., AN ARIZONA)	
CORPORATION, FOR A DETERMINATION)	
OF THE CURRENT FAIR VALUE OF ITS)	
UTILITY PLANT AND PROPERTY AND FOR)	
RATE INCREASES IN ITS RATES AND)	
CHARGES FOR UTILITY SERVICE BASED)	
THEREON)	

SURREBUTTAL

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 14, 2009

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
REVENUE REQUIREMENT	2
RATE BASE.....	2
INCOME STATEMENT	2
RATE DESIGN	4

SURREBUTTAL SCHEDULES

Revenue Requirement.....	Surrebuttal Revised CRM-1
Rate base – Original Cost	Surrebuttal Revised CRM-2
Operating income Statement.....	Surrebuttal Revised CRM-4
Operating Income Adjustment # 5 Property Tax Expense	Surrebuttal Revised CRM-10
Rate Design.....	Surrebuttal Revised CRM-12
Typical Bill Analysis	Surrebuttal Revised CRM-13

**EXECUTIVE SUMMARY
FARMERS WATER COMPANY
DOCKET NO. W-01654A-08-0502**

The Farmers Water Company ("Farmers" or "Company") originally proposed a revenue requirement of \$763,355, in its Direct Testimony. In its Rebuttal Testimony, the Company has revised its proposed revenue requirement to \$759,404. This would increase revenue by \$196,121 over test year revenue of \$563,283 or a 34.82 percent increase. This revision would produce an operating income of \$75,940 or 10.00 percent operating margin.

Staff's Direct Testimony recommended a revenue requirement of \$710,333. Staff's Surrebuttal Testimony recommends revenue of \$726,887. This would increase revenue by \$163,604 over test year revenues or a 29.04 percent increase. This revision would produce an operating margin of \$72,689 or a 10.00 percent operating margin.

The Company's proposed rates would increase the typical residential customer bill with a median usage of 3,500 gallons by \$2.46 from \$10.88 to \$13.34, for a 22.62 percent increase. Staff's recommend rates would increase the typical residential customer bill with a median usage of 3,500 gallons by \$2.10 from \$10.88 to \$12.98 for a 19.31 percent increase.

Staff concurs with the Company on the rate of operating margin, level of rate base, and the methodology for computing property taxes.

The Company proposed to change deposit interest from 6 percent to 2 percent. Staff recommends that the deposit interest remain at 6 percent.

The Company proposed a tariff of \$50.00 for meter box re-inspection. Staff made an error in its Direct Testimony by recommending cost for this item. This item is addressed in the Arizona Administrative Code R-14-2-407.

Staff recommends its rates and expenses as depicted on Surrebuttal Schedule CRM-12.

Staff Recommends:

Staff's rates and charges be approved as shown on Schedule CRM-12. In addition to collection of its regular rates and charges, the Company may collect from its customers the proportionate share of any privilege, sales or use tax per Commission Rule R 14-2-409(D)(5).

The Company be ordered to docket a tariff of the approved rates and charges within 30 days after the Decision in this matter is issued.

The Company be ordered to use the depreciation rates delineated in Table H-1 of the Engineering Report on a going forward basis.

The Company be ordered to evaluate its water systems and prepare a report for corrective measures demonstrating how the Company will reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control as a compliance item in this docket by June 30, 2010. In any event water loss shall not exceed 15 percent.

The Company be required to provide separate water use data sheets for domestic water use and construction water use for each of its water systems in future Annual Reports.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Charles R. Myhlhousen who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Farmers Water Company ("Farmers" or "Company") witnesses, Mr. Thomas J. Bourassa and Ms. Heather Triana, regarding revenue requirement, rate base, income statement and rate design.

Q. Did you attempt to address every issue the Company raised in its Rebuttal Testimony?

A. No. Staff limited its discussion to the specific issues as outlined below. Staff's lack of response to any issue in this proceeding should not be construed as agreement with the Company's position in its Rebuttal Testimony; rather, where there is no response, Staff relies on its original Direct Testimony.

Q. What issues will you address?

A. Staff will address the issues outlined below that are discussed in the Rebuttal Testimonies of the Company witnesses Mr. Thomas J. Bourassa and Ms. Heather Triana.

1 **Q. Please explain how Staff's Surrebuttal Testimony is organized.**

2 A. Staff's Surrebuttal Testimony is generally organized to present issues in the same
3 sequence as presented in Mr. Bourassa's and Ms. Triana's Rebuttal Testimonies.
4

5 **REVENUE REQUIREMENT**

6 **Q. Has Staff adopted the revenue requirement of \$759,404 as proposed by the Company**
7 **in its Rebuttal Testimony?**

8 A. No.
9

10 **Q. Did Staff revise the revenue requirement from its Direct Testimony?**

11 A. Yes, Staff's Direct Testimony recommended a revenue requirement of \$710,333. Staff's
12 Surrebuttal Testimony recommends a revenue requirement of \$726,887. This is an
13 increase of \$16,554. (See Surrebuttal Revised Schedule CRM-1.)
14

15 **Q. Why did Staff increase its revenue requirement?**

16 A. Staff is recommending increasing salaries and wages expense and property taxes expense.
17 These will be discussed later.
18

19 **RATE BASE**

20 **Q. Does the Company and Staff agree on rate base?**

21 A. Yes. (See Surrebuttal Revised Schedule CRM-2.)
22

23 **INCOME STATEMENT**

24 **Q. Does the Company agree with Staff's adjustment to salaries and wages in Staff's**
25 **Direct Testimony?**

26 A. No.

1 **Q. Did Staff change its recommendation to adjust salaries and wages from its Direct**
2 **Testimony?**

3 A. Yes. Staff no longer recommends its previous disallowance.
4

5 **Q. Why is Staff changing its recommendation and reversing its earlier removal of**
6 **\$14,589?**

7 A. The Company supplied information in its Rebuttal Testimony to clarify that these
8 additional wages were not bonuses. This amount represents wages paid to compensate for
9 the loss of a pay period during the year when the Company changed its payroll periods.
10 (See Surrebuttal Revised Schedule CRM-4.)
11

12 **Q. Does Staff agree with the proposed Rebuttal property taxes?**

13 A. No. Although Staff and the Company agree on the method to compute property taxes, the
14 resulting amount is based on test year revenue and recommended revenue. Since Staff is
15 recommending a lower revenue requirement, the resulting property tax amount is also
16 lower. (See Surrebuttal Revised Schedule CRM-10.)
17

18 **Q. Does Staff agree with the Company-proposed income taxes for Sub-chapter S**
19 **corporations?**

20 A. No. Staff does not recommend inclusion of income taxes for Sub-Chapter S corporations.
21 The Company elected a non-tax entity status. The income or loss of the Sub-chapter S
22 corporation is passed on to the shareholders with no income tax liability to the
23 corporation. Staff continues to support the Commission's current position of not allowing
24 income tax expenses to Sub-chapter S corporations, partnerships, sole proprietorships,
25 and/or limited liability companies.
26

1 Further, it is Staff's understanding that the Commission's authority for this position was
2 established in *Consolidated Water Utilities v ACC* 178 Ariz. 478,875 P. 2d 137 (Ariz. Ct.
3 app 1993). In the decision the court stated:

4
5 *Recognizing that two of the other forty-nine states have allowed*
6 *income tax expenses incurred by utility companies operating as Sub-*
7 *chapter S corporations or sole proprietorships, we also recognize that,*
8 *in Arizona, the decision to allow or disallow that tax expense is to be*
9 *made by the Commission, not the courts. See also Tucson Gas, 15*
10 *Ariz. At 306, 138 P. at 786 (the Commission has exclusive power over*
11 *rate cases, and this "exclusive field may not be invaded by either the*
12 *courts, legislative or executive"). Consolidated has not convincingly*
13 *shown that the Commission erred in disallowing recovery of*
14 *partnership tax expenses.*

15
16 **Q. Staff recommended that rate case expense be normalized instead of amortized in its**
17 **Direct Testimony. Does Staff continue to support its recommendation in its Direct**
18 **Testimony?**

19 **A. Yes. Expenses are normalized and balance sheet items and assets are amortized.**
20

21 **RATE DESIGN**

22 **Q. Why did Staff recommend no monthly minimum charge for standpipe users?**

23 **A. Staff, in its Direct Testimony, recommended no monthly minimum charge for standpipe**
24 **users. Staff continues to make this recommendation. A monthly minimum charge is**
25 **normally associated with permanent customers and is designed to recover the fixed costs**
26 **related to providing such service. Any fixed costs that may be associated with providing**
27 **standpipe service are being recovered by the Company by applying the high commodity**
28 **rate (third tier) to all standpipe water sales.**
29

1 **Q. Did the Company propose to change deposit interest from 6 percent to 2 percent?**

2 A. Yes.

3

4 **Q. What deposit interest rate is Staff recommending?**

5 A. Staff continues to recommend the deposit interest rate of 6 percent, in accordance with
6 Arizona Administrative Code ("A.A.C.") R14-2-403B.3. Interest is a fluctuating item and
7 has, historically, not been altered to match current rates; up or down.

8

9 **Q. Did the Company propose a \$50.00 tariff for meter box re-inspection in its Direct**
10 **and Surrebuttal Testimonies?**

11 A. Yes.

12

13 **Q. Did Staff address this item in its Direct Testimony?**

14 A. Yes. Staff recommended cost.

15

16 **Q. Is Staff now changing its recommendation?**

17 A. Yes.

18

19 **Q. Does Staff support the Company's proposed tariff for the meter box re-inspection of**
20 **\$50.00?**

21 A. No.

22

23 **Q. What is Staff's recommendation for meter box re-inspection?**

24 A. The Company is proposing adding a service charge of \$50.00 for meter box re-inspection.
25 Staff opposes such a charge. The customer's responsibility as it pertains to utility property
26 is addressed in A.A.C. R14-2-407.

1 **Q. Did Staff recommend a charge for deferred payment per month in its Direct**
2 **Testimony?**

3 A. Yes. Staff recommended 150 percent per month.
4

5 **Q. Does Staff still recommend this percentage?**

6 A. No. The 150 percent was a typographical error. Staff meant to recommend a deferred
7 payment of 1.5 percent per month. Staff recommends the 1.5 percent per month for
8 deferred payment.
9

10 **Q. Is Staff recommending changing its rates in its Surrebuttal Testimony?**

11 A. Yes. Since Staff increased the recommended revenue requirement, Staff made changes to
12 its third tier rate to recover the new revenue requirement. (See Surrebuttal Revised
13 Schedule CRM-12.)
14

15 **Q. What are Staff's Surrebuttal recommended rates?**

16 A. Staff's recommended monthly minimum charges by meter size are as follows:
17

Meter Size	Monthly <u>Minimum</u>	Gallons included <u>in Monthly Minimum</u>
5/8-Inch meter (All Classes)	\$8.25	0
3/4-Inch (All Classes)	\$9.28	0
1-Inch meter (All Classes)	\$10.32	0
1 1/2-Inch meter (All Classes)	\$20.64	0
2-Inch meter (All Classes)	\$33.02	0
3-Inch meter (All Classes)	\$66.04	0
4-Inch meter (All Classes)	\$103.19	0
6-Inch meter (All Classes)	\$206.38	0
2-Inch standpipe	\$0.00	0
6-Inch standpipe	\$0.00	0

Staff's recommended commodity charges and tiers by meter size are as follows:

<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
5/8-Inch (Residential) and 3/4-Inch (Residential)	One to 4,000	\$1.35
	4,001 to 10,000	\$1.90
	All gallons over 10,000	\$2.95
5/8 and 3/4-inch meter size (Commercial and Industrial)	One to 10,000	\$1.90
	Over 10,000	\$2.95
1-Inch (All Classes)	One to 12,500	\$1.90
	All gallons over 12,500	\$2.95
1-½ Inch (All Classes)	One to 12,500	\$1.90
	All gallons over 25,000	\$2.95
2- Inch (All Classes)	One to 40,000	\$1.90
	All gallons over 40,000	\$2.95
3- Inch (All Classes)	One to 80,000	\$1.90
	All gallons over 80,000	\$2.95
4- Inch (All Classes)	One to 125,000	\$1.90
	All gallons over 125,000	\$2.95
6- Inch (All Classes)	One to 250,000	\$1.90
	All gallons over 250,000	\$2.95

For construction, bulk and standpipe the rate is \$2.95 per 1,000 gallons with no monthly minimum charge.

"All Classes" means Residential, Commercial, Industrial and Multi-family.

1 **Q. What is the rate impact on a 5/8 x 3/4 inch meter residential customer using a**
2 **median consumption of 3,500 gallons?**

3 A. The median usage of a typical residential 5/8 x 3/4 inch meter customers is 3,500 gallons
4 per month. Under the rates proposed in the Company's Rebuttal Testimony, the median
5 residential 5/8 x 3/4 inch meter customer would experience a \$2.46 or 22.62 percent
6 increase in his or her monthly bill, from \$10.88 to \$13.34. Under Staff's recommendation,
7 the median residential 5/8 x 3/4 inch meter customer would experience a \$2.10 or 19.31
8 percent increase in his or her monthly bill, from \$10.88 to \$12.98. (See Surrebuttal
9 Revised Schedule CRM-13.)

10

11 **Q. Does this conclude your Surrebuttal Testimony?**

12 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base - Fair Value equals Original Cost	\$ (748,646)	\$ (748,646)	\$ (748,646)	\$ (748,646)
2	Adjusted Operating Income Loss	\$ (68,860)	\$ (68,860)	\$ (87,692)	\$ (87,692)
3	Current Operating Margin	-12.22%	-12.22%	10.00%	10.00%
4	Required Operating Margin L3/L4	10.28%	10.28%	10.00%	10.00%
5	Required Operating Income	\$ 76,335	\$ 76,335	\$ 72,689	\$ 72,689
6	Operating Income Deficiency/(Excess) (L5 - L2)	\$ 200,072	\$ 200,072	\$ 163,604	\$ 163,604
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase/(Decrease) (L7 * L6)	\$ 200,072	\$ 200,072	\$ 163,604	\$ 163,604
9	Adjusted Test Year Revenue	\$ 563,283	\$ 563,283	\$ 563,283	\$ 563,283
10	Proposed Annual Revenue (L8 + L9)	\$ 763,355	\$ 763,355	\$ 726,887	\$ 726,887
11	Required Increase/(Decrease) in Revenue (%)	35.52%	35.52%	29.04%	29.04%
12	Rate of Return on Equity (%)	NMF	NMF	NMF	NMF
13	Operating Margin (L5/L10)	10.00%	10.00%	10.00%	10.00%

References:

Columns [A] and [B]: Company Schedules

Columns [C] and [D]: STAFF Schedules CRM-2, CRM-3 and CRM-5

NMF - Not Meaningful

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 8,630,976	\$ -	\$ 8,630,976
2 Less: Accumulated Depreciation	2,039,595	\$ -	\$ 2,039,595
3 Net Plant in Service	<u>\$ 6,591,381</u>	\$ -	<u>\$ 6,591,381</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 576,492	\$ -	\$ 576,492
5 Less: Accumulated Amortization	111,381	\$ -	\$ 111,381
6 Net CIAC	<u>465,111</u>	\$ -	<u>\$ 465,111</u>
			\$ -
7 Advances in Aid of Construction (AIAC)	6,874,915	\$ -	\$ 6,874,915
8 Customer Deposits	-	-	-
9 Deferred Income Tax Credits	-	-	-
<u>ADD:</u>			
10 Unamortized Finance Charges	-	-	-
11 Deferred Income Tax Debits	-	-	-
12 Working Capital	-	-	-
13 Intentionally Left Blank	-	-	-
17 Original Cost Rate Base	<u>\$ (748,646)</u>	\$ -	<u>\$ (748,646)</u>

References:

Column [A], Company Schedule B-1
 Column [B]: Column [C] - Column [A]

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] Revised STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 551,198	\$ -	\$ 551,198	\$ 163,604	\$ 714,802
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenue	12,085	-	12,085	-	12,085
4	Total Operating Revenues	\$ 563,283	\$ -	\$ 563,283	\$ 163,604	\$ 726,887
OPERATING EXPENSES:						
7	Salaries and Wages	\$ 180,508	-	1 \$ 180,508	\$ -	\$ 180,508
8	Purchased Water	-	-	-	-	-
9	Purchased Power	17,400	-	17,400	-	17,400
10	Chemicals	-	-	-	-	-
11	Repairs and Maintenance	76,477	(10,764)	2 65,713	-	65,713
12	Office Supplies and Expense	15,427	-	15,427	-	15,427
13	Outside Services	15,105	-	15,105	-	15,105
14	Water Testing	11,154	365	3 11,519	-	11,519
15	Rents	-	-	-	-	-
16	Transportation Expenses	2,018	-	2,018	-	2,018
17	Insurance - General Liability	3,317	-	3,317	-	3,317
18	Insurance - Health and Life	22,691	-	22,691	-	22,691
	Insurance - Worker's Compensation	7,832	-	7,832	-	7,832
19	Reg. Comm. Exp. - Rate Case	15,000	-	15,000	-	15,000
20	Miscellaneous Expenses	8,494	-	8,494	-	8,494
21	Depreciation Expense	240,272	(1,687)	4 238,585	-	238,585
22	Taxes Other than Income	15,140	-	15,140	-	15,140
23	Property Taxes	27,334	4,891	5 32,225	3,223	35,448
24	Income Taxes	(26,026)	26,026	6 -	-	-
25	Intentionally Left blank(Rounding)	-	-	-	-	-
27	Total Operating Expenses	632,143	18,832	650,975	3,223	654,198
28	Operating Income (Loss)	\$ (68,860)	\$ (18,832)	\$ (87,692)	\$ 160,381	\$ 72,689

References:

Column (A): Company Schedule C-1
Column (B): Testimony
Column (C): Column (A) - Column (B)
Column (D): Schedules CRM-5 & 6
Column (E): Column (C) + Column (D)

Farmers Water Company

Docket No. W-01654A-08-0502

Test Year Ended September 30, 2007

Surrebual Revised Schedule CRM-10

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	\$ 563,283	\$ 563,283
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,126,566	\$ 1,126,566
4	Staff Recommended Revenue	563,283	\$ 726,887
5	Subtotal (Line 4 + Line 5)	\$ 1,689,849	\$ 1,853,453
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 563,283	\$ 617,818
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 1,126,566	\$ 1,235,635
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	35,933	35,933
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 1,090,633	\$ 1,199,702
13	Assessment Ratio	23.00%	23.00%
14	Assessment Value (Line 12 * Line 13)	\$ 250,846	\$ 275,932
15	Composite Property Tax Rate - Obtained from ADOR	12.8467%	12.8467%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 32,225	
17	Company Proposed Property Tax	27,334	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 4,891	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 35,448
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 32,225
21	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement		\$ 3,223
22	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement (Line 21)	\$	3,223
23	Increase (Decrease) in Revenue Requirement	\$	163,604
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.96983%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Schedule C-1 Page 2

Line 21: Line 19 - Line 20

Line 23: Schedule CRM-1

RATE DESIGN

Monthly Minimum	Present Rates	Company Proposed	Staff Recommended
5/8-Inch Meter (All Classes)	\$ 6.50	\$ 8.26	\$ 8.25
3/4-Inch Meter (All Classes)	\$ 6.50	\$ 8.28	\$ 9.28
1-Inch Meter (All Classes)	\$ 9.00	\$ 10.32	\$ 10.32
1 1/2-Inch Meter (All Classes)	\$ 13.00	\$ 20.64	\$ 20.64
2-Inch Meter (All Classes)	\$ 19.50	\$ 33.02	\$ 33.02
3-Inch Meter (All Classes)	\$ 25.00	\$ 66.04	\$ 66.04
4-Inch Meter (All Classes)	\$ 32.00	\$ 103.19	\$ 103.19
6-Inch Meter (All Classes)	\$ 40.00	\$ 206.38	\$ 206.38
2-Inch Standpipe	\$ 19.50	\$ 33.02	\$ -
6-Inch Standpipe	\$ 40.00	\$ 206.38	\$ -

Gallons in the Minimum

Commodity Rates

Per 1,000 Gallons

5/8-Inch Meter-Residential

Tiers				
1 - 5,000 Gallons	\$ 1.25	\$ -	\$ -	
5,001 - 10,000 Gall	1.45	\$ -	\$ -	
Over 10,000 Gallon	1.65	\$ -	\$ -	
1 - 4,000 Gallons	\$ -	\$ 1.45	\$ 1.35	
4,001 - 10,000 Gall	\$ -	1.92	1.90	
Over 10,000 Gallon	\$ -	2.49	2.95	

5/8-Inch Meter-Commercial and Industrial

1 to 10,000 Gallons	\$ 1.90	\$ 1.90
Over 10,000 Gallons	\$ 2.49	2.95

3/4-Inch Meter Residential

1 - 4,000 Gallons	n/a	n/a	\$ 1.35
4,001 to 10,000 Ga	n/a	n/a	1.90
Over 10,000 Gallon	n/a	n/a	2.95

1-inch Meter (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 to 12,500 Gallons	NA	\$ 1.90	\$ 1.90
Over 12,500 Gallon	NA	2.49	2.95

1 1/2-inch Meter: (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 - to 25,000 Gallon	\$ -	\$ 1.90	\$ 1.90
Over 25,000 Gallon	\$ -	2.49	2.95

2-inch Meter (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 - 40,000 Gallons	\$ -	\$ 1.90	\$ 1.90
Over 40,000 Gallon	\$ -	2.49	2.95

3-inch Meter (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 - 80,000 Gallons	\$ -	\$ 1.90	\$ 1.90
Over 80,000 Gallon	\$ -	2.49	2.95

4-inch Meter (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 - to 125,000 Gall	\$ -	\$ 1.90	\$ 1.90
Over 125,000 Gall	\$ -	2.49	2.95

6-Inch Meter (All Classes)

0 - 5,000 Gallons	\$ 1.25	\$ -	\$ -
5,000 to 10,000 Ga	1.45	\$ -	\$ -
Over 10,000 Gallon	1.65	\$ -	\$ -
1 - 250,000 gallons	\$ -	\$ 1.90	\$ 1.90
Over 250,000 Gall	\$ -	2.49	2.95

2-Inch Standpipe

Per 1,000 Gallons	\$ 1.25	\$ 2.49	\$ 2.95
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6-Inch Standpipe

Per 1,000 Gallons	\$ 1.25	\$ 2.49	\$ 2.95
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Meter and Service Line Installation Charges

	Present Service Line Charge	Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Meter Installation Charge	Total Recommended Charge
5/8 x 3/4-Inch Meter	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4-Inch Meter	\$ 385.00	\$ 215.00	\$ 600.00	\$ 415.00	\$ 205.00	\$ 620.00	\$ 415.00	\$ 205.00	\$ 620.00
1-Inch Meter	\$ 435.00	\$ 255.00	\$ 690.00	\$ 465.00	\$ 285.00	\$ 750.00	\$ 465.00	\$ 285.00	\$ 750.00
1 1/2-Inch Meter	\$ 470.00	\$ 465.00	\$ 935.00	\$ 520.00	\$ 475.00	\$ 995.00	\$ 520.00	\$ 475.00	\$ 995.00
2-Inch Turbine Meter	\$ 630.00	\$ 965.00	\$ 1,595.00	\$ 800.00	\$ 995.00	\$ 1,795.00	\$ 800.00	\$ 995.00	\$ 1,795.00
2-Inch Compound Meter	\$ 630.00	\$ 1,690.00	\$ 2,320.00	\$ 800.00	\$ 1,840.00	\$ 2,640.00	\$ 800.00	\$ 1,840.00	\$ 2,640.00
3-Inch Turbine Meter	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 1,015.00	\$ 1,820.00	\$ 2,835.00	\$ 1,015.00	\$ 1,820.00	\$ 2,835.00
3-Inch Compound Meter	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 1,135.00	\$ 2,495.00	\$ 3,630.00	\$ 1,135.00	\$ 2,495.00	\$ 3,630.00
4-Inch Turbine Meter	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,430.00	\$ 2,570.00	\$ 4,000.00	\$ 1,430.00	\$ 2,570.00	\$ 4,000.00
4-Inch Compound Meter	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,610.00	\$ 3,545.00	\$ 5,155.00	\$ 1,610.00	\$ 3,545.00	\$ 5,155.00
6-Inch Turbine Meter	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 2,150.00	\$ 4,925.00	\$ 7,075.00	\$ 2,150.00	\$ 4,925.00	\$ 7,075.00
6-Inch Compound Meter	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 2,270.00	\$ 6,820.00	\$ 9,090.00	\$ 2,270.00	\$ 6,820.00	\$ 9,090.00
8-Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10-Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12-Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Note: Meter charge includes meter box or vault.

	Present Rates	Proposed	Recommended
Other Service Charges			
Establishment of Service:	\$ 25.00	\$ 35.00	\$ 35.00
Establishment (After Hours)	\$ 25.00	\$ 50.00	\$ 50.00
Reconnection (Delinquent)	\$ 25.00	\$ 40.00	\$ 40.00
reconnection (delinquent and After Hours)	N/T	\$ 55.00	\$ 55.00
Meter Test (if meter reading correctly)	\$ 25.00	\$ 25.00	\$ 25.00
Hydrant Meter Deposit (refundable)	N/T	\$ 150.00	\$ 150.00
Deposit	*	*	*
Deposit Interest	**	**	6%
Re-Establishment (Within 12 Months)			
NSF Check Charge	\$ 20.00	\$ 20.00	\$ 20.00
Deferred Payment Per Month	N/T	1.50%	1.50%
Meter Re-read (if Correct)	\$ 20.00	\$ 20.00	\$ 20.00
After hours service charge, per Rule R-14-2-403D	N/T	Cost	Cost
Late Charge per month	N/T	1.50%	1.50%
Meter Tampering Charge	N/T	Cost	Cost
Meter Box "Cut Lock" Charge	N/T	Cost	Cost
Meter Box Re-Inspection	N/T	\$ 50.00	***

Company's Proposed

- * Per Commission Rule (R-14-2-403B)
- ** Months off system times the minimum Per XCommission Rule (R14-2-403D)
- N/T No Tariff

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D5)

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

Staff's Recommended

- * Per rule R14-2-403.B
- ** Months off system time the minimum (R-14-2-403.D)
- Late Charge 1.50 percent of the unpaid balance per month.
- *** Per rule R-14-2-407.B

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax Per Commission Rule (14-2-409.D5)

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,898	\$ 14.05	\$ 17.70	\$ 3.65	25.99%
Median Usage	3,500	10.88	13.34	\$ 2.46	22.62%
Staff Recommended					
Average Usage	5,898	\$ 14.05	\$ 17.26	\$ 3.20	22.80%
Median Usage	3,500	10.88	12.98	\$ 2.10	19.31%

Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 6.50	\$ 8.26	27.08%	\$ 8.25	26.92%
1,000	7.75	9.71	25.29%	9.60	23.87%
2,000	9.00	11.16	24.00%	10.95	21.67%
3,000	10.25	12.61	23.02%	12.30	20.00%
3,500	10.88	13.34	22.62%	12.98	19.31%
4,000	11.50	14.06	22.26%	13.65	18.70%
5,000	12.75	15.98	25.33%	15.55	21.96%
5,500	13.48	16.94	25.71%	16.50	22.45%
5,898	14.05	17.70	25.99%	17.26	22.80%
6,000	14.20	17.90	26.06%	17.45	22.89%
7,000	15.65	19.82	26.65%	19.35	23.64%
7,376	16.20	20.54	26.84%	20.06	23.89%
8,000	17.10	21.74	27.13%	21.25	24.27%
9,000	18.55	23.66	27.55%	23.15	24.80%
10,000	20.00	25.58	27.90%	25.05	25.25%
11,000	21.65	28.07	29.65%	28.00	29.33%
12,000	23.30	30.56	31.16%	30.95	32.83%
13,000	24.95	33.05	32.46%	33.90	35.87%
14,000	26.60	35.54	33.61%	36.85	38.53%
15,000	28.25	38.03	34.62%	39.80	40.88%
16,000	29.90	40.52	35.52%	42.75	42.98%
17,000	31.55	43.01	36.32%	45.70	44.85%
18,000	33.20	45.50	37.05%	48.65	46.54%
19,000	34.85	47.99	37.70%	51.60	48.06%
20,000	36.50	50.48	38.30%	54.55	49.45%
25,000	44.75	62.93	40.63%	69.30	54.86%
30,000	53.00	75.38	42.23%	84.05	58.58%
35,000	61.25	87.83	43.40%	98.80	61.31%
40,000	69.50	100.28	44.29%	113.55	63.38%
45,000	77.75	112.73	44.99%	128.30	65.02%
50,000	86.00	125.18	45.56%	143.05	66.34%
75,000	127.25	187.43	47.29%	216.80	70.37%
100,000	168.50	249.68	48.18%	290.55	72.43%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
FARMERS WATER CO., AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE CURRENT FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR)
RATE INCREASES IN ITS RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON)
_____)

DOCKET NO. W-01654A-08-0502

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 14, 2009

**EXECUTIVE SUMMARY
FARMERS WATER CO.
DOCKET NO. W-01654A-08-0502**

The Continental water system reported a water loss of 10.07 percent, and the Sahuarita Highlands water system water loss was approximately 13.3 percent for test year 2007.

Staff would like to see the water loss less than 10 percent for all systems for a minimum of 12 months. Therefore, Staff recommends that the Company continue to monitor its water systems through December 31, 2009. If the water loss is less than 10 percent for all systems for the full 12 month period, Farmers Water Co. ("Company") shall submit a report including the updated water use data for each system demonstrating that corrective measures are no longer necessary. If on the other hand the water use data for the 12 month period indicates a water loss that is greater than the 10 percent threshold in any of its systems, then the Company shall prepare a report including the corrective measures that will be undertaken by the Company to reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event water loss shall not exceed 15 percent. The Company shall file such report with Docket Control as a compliance item in this docket by June 30, 2010.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Farmers Water Co. ("Farmers Water" or "Company") witness, Heather Triana, regarding the Company's position that it does not believe a water loss report is necessary because the water loss for the Continental and Sahuarita Highlands water systems has been less than the 10 percent threshold for the first eight months in 2009. Staff would like to see the water loss less than 10 percent for all systems for a minimum of 12 months. Therefore, Staff recommends that the Company continue to monitor its water systems through December 31, 2009. If the water loss is less than 10 percent for all systems for the full 12 month period, the Company shall submit a report including the updated water use data for each system demonstrating that corrective measures are no longer necessary. If, on the other hand, the water use data for the 12 month period indicates a water loss that is greater than the 10 percent threshold in any of its systems, then the Company shall prepare a report including the corrective measures that will be undertaken by the Company to reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the

1 Company shall submit a detailed cost analysis and explanation demonstrating why water
2 loss reduction to less than 10 percent is not cost effective. In any event water loss shall
3 not exceed 15 percent. The Company shall file such report with Docket Control as a
4 compliance item in this docket by June 30, 2010.

5
6 **Q. Did you attempt to address every issue the Company raised in its Rebuttal**
7 **Testimony?**

8 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of
9 response to any issue in this proceeding should not be construed as agreement with the
10 Company's position in its Rebuttal Testimony; rather where there is no response Staff
11 relies on its original Direct Testimony.

12
13 **Q. Does this conclude your Surrebuttal Testimony?**

14 A. Yes, it does.